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2004 Dairy Records All Around

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The next release is
Dec. 28, 2004

Approved by the
World Agricultural
Outlook Board.

NOTE: Due to uncertainties as to the length of bans regarding the imports of ruminant products due to the discovery of a BSE-infected cow in December 2003, forecasts for 2004 and 2005 assume a continuation of policies currently in place. Subsequent forecasts will reflect any announced changes.

The year 2004 has been incredible for the U.S. dairy industry. Milk production is forecast to be a record or near-record, commercial use also hit new highs, and prices were extremely volatile throughout the year. By the time this year is over, farm milk prices will have jumped more than a fourth from 2003's average to a record \$16 per hundredweight (cwt).

Expanded milk production in 2005 is projected to lend more stability to the industry and to lower prices. However, growth in milk production is not expected to be rapid, dairy product demand is expected to be pretty good, and commercial exports are projected to continue to absorb most of the domestic surplus of skim solids. Milk prices are projected to lose only about half of their 2004 increase.

Fourth-quarter beef production is going to be about unchanged from the very low levels of last year. Poor feedlot conditions in many areas in late November raises concerns for maintaining production in the first half of 2005. Muddy feedlots and reduced gains have added another factor to already tight fed beef supplies. Retail beef prices are expected to remain strong in 2005, with fed cattle supplies remaining very tight. Heifers retailed for breeding in 2005 will tighten supplies even more in late 2005 and 2006, resulting in another run toward record prices.

Prices of 51-52 percent lean hogs (live equivalent) in the fourth quarter of 2004 remain at startling levels despite seasonally high slaughter and pork production. Hog prices are expected to range between \$55 and \$56 per cwt, 50 percent higher than in the fourth-quarter of 2003. Pork production for 2004 is expected to be almost 3 percent higher than

last year, at 20.5 billion pounds. Excellent pork demand in both domestic and export markets are the primary factors supporting hog prices right now.

Through October, U.S. companies exported 1.8 billion pounds of pork products, more than 25 percent above the same period last year. Japan, Mexico, and Canada continue to account for about 80 percent of U.S. exports. Taiwan's imports of U.S. pork products are currently 63 percent larger than last year, largely due to the effects of Porcine Circovirus in the Taiwanese swine herd.

USDA will release the *Quarterly Hogs and Pigs* report on December 28, 2004.

The increase in broiler production in 2005 is expected to slow to about 3 percent, down from the 4 percent increase expected this year. Broiler exports have benefited over the last several months from the decline in U.S. prices of most broiler parts. The recent reopening of the Chinese market to U.S. poultry products is expected to strengthen exports of U.S. broiler parts. Broiler prices are expected to gradually strengthen from their current lows over the next several months as slower production increases and stronger exports draws down relatively high stocks.

Watch for changes in early 2005 in the formatting of the Livestock, Dairy, and Poultry newsletter that we hope will make our information more useful and timely. We plan to use the charts (previously included with our tables in the back of the newsletter) to illustrate specific points in our analysis. Since we know that most of our users use our data in spreadsheet format, the tables that we publish in what is now known as the "full report" will be available as Excel spreadsheets only. Subscribers to our newsletter will receive notices when the newsletter and the spreadsheets are posted to the web. These changes will help us streamline our operations, and provide you with updated analysis and data in formats that you can easily use in your own reviews of the markets.

2004 Dairy Records All Around

The year of 2004 has been incredible for the U.S. dairy industry. Milk production is a record or near-record, commercial use has hit new highs, and prices have been extremely volatile throughout the year. Farm milk prices have jumped more than a fourth from 2003's average to a record \$16 per cwt.

Expanded milk production in 2005 is projected to lend more stability to the industry and to lower prices. However, growth in milk production is not expected to be rapid, dairy product demand is expected to be pretty good, and commercial exports are projected to continue to absorb most of the domestic surplus of skim solids. Milk prices are projected to lose only about half of their 2004 increase.

Slow Milk Production Growth To Continue

Milk production continues its cautious expansion, running about 1 percent above a year earlier since it moved positive in early summer. Strength in milk prices has proven more persistent than earlier thought, probably bringing milk cow numbers near a year earlier for the first time since early 2003. However, growth in milk per cow remains rather anemic, as forage problems continue, improved price ratios between milk and concentrate feeds have yet to make a splash, and bovine somatotropin (BST) remains limited.

Record farm milk prices in 2004 have bolstered milk cow numbers. Although concentrate feed prices were high for part of the year, returns over concentrate costs have averaged about the highest ever. These returns apparently slowed the exit of farms from dairying, having improved the ability of even the weaker operations to hold on. Some effects may last into 2005 as these farms probably have used some of this year's windfall to get ahead on critical expenses.

The strong returns probably did not have as much impact on expansion by robust farms. Considerable incentive existed to keep facilities as full as possible, but many of the key factors in this year's prices likely were perceived to be too temporary to alter long-term growth plans. Even so, the infusion of cash probably will allow farms to expand somewhat sooner than otherwise.

Replacement heifer prices eased a little this autumn, but supplies probably have stayed tight. In 2004, replacement prices are expected to average over \$1,600 per head, exceeding even the record of 2002. The United States remains closed to imports of breeding stock from Canada. The January inventory report might show a few more homegrown replacement heifers than at the start of 2004. However, any increase is likely to be modest because the greatest economic influence on this inventory would have been the relatively low replacement prices of 2003.

The upward drift in milk cow numbers that began early last winter appears to have peaked in early autumn. Cow numbers are projected to slowly decline in coming months as farm exits gradually resume, expansions stay moderate, and heifer supplies remain tight. Decreases may accelerate as 2005 progresses, but returns are expected to remain favorable enough to limit declines in cows. Cow numbers are expected to decline less than 1 percent in 2005, very similar to this year's slippage.

Milk per Cow Struggling

After a modest spur from favorable summer weather, milk per cow settled back into very weak growth. Restricted supplies of BST were a key factor but forage quality also played a role. A significant share of the hay produced in most major dairy areas this year was mediocre. Unusual culling due to the heifer shortage may also have been significant.

The price of milk relative to concentrate feed prices has been at levels associated with above-average growth in milk per cow since late 2003. However, the lack of apparent response may reflect mostly changes in feeding practices. The complexity of modern feeding has slowed responses to changes in economic incentives, and might even have diminished the role of prices in determining growth in milk per cow. Even so, ratios in 2005 are projected to favor, for the second straight year, increased feeding and recovery in milk per cow.

Monsanto has said that allocations will continue “well into 2005,” but farmers using BST were able to start receiving 70 percent of normal use as of December 1, will get 85 percent as of January 1, and further boosts may occur. Expanded BST use could significantly enhance recovery in milk per cow growth, particularly since returns to the hormone are projected to be relatively favorable.

Milk per cow in 2004 is projected to total only about 1 percent more than in 2003, following a similar weak showing in 2003. Milk per cow in 2005 is expected to rise almost 3 percent, a seemingly impressive rise. However, this increase would represent a rather modest recovery towards the long-run trend.

Milk production is projected to end 2004 stronger than earlier in the year. Even so, the annual total is expected to be almost unchanged from a year earlier. Output in 2005 is projected to expand about 2 percent, the first sizable rise since 2002.

Commercial Stocks Cut

Butter and cheese stocks continued to be trimmed at a brisk seasonal pace in October. November 1 butter holdings were down sharply from the two preceding years, and weekly indicators showed further strong decreases during November. Commercial cheese stocks remained slightly larger than 1 or 2 years earlier. Summertime backups into warehouse stocks had largely dissipated by the start of November. The key factor in recent stock trimming probably was strong product movement for the autumn holidays. Sales reportedly were fairly good in late October and remained strong through Thanksgiving.

Manufacturers’ nonfat dry milk stocks were significantly above a year earlier on November 1. However, the modest size of price support purchases during October and November indicated that traders were not uncomfortable with these holdings. Strong powder sales generally and the prominence of the export market probably have boosted the need for stocks this year.

The combination of a considerably smaller surplus and aggressive donation use for drought relief and food aid pulled government stocks of nonfat dry milk on November 1 below 500 million pounds, the smallest since late 2000 and half the

level of a year earlier. Most of the remaining powder is expected to be used in coming months, although new purchases are projected to replenish stocks somewhat.

Net removals of nonfat dry milk have been fairly moderate in recent months. There have been no Dairy Export Incentive Program (DEIP) shipments, and the continued exchange of nonfat dry milk for pudding apparently has displaced relatively little domestic use. The key to this rather abrupt change in the surplus of skim solids has been the competitiveness of U.S. skim solids in the international market. However, recovery in domestic ingredient use may also have made a significant contribution.

During the marketing year ended September 30, 2004, net removals of nonfat dry milk were only 167 million pounds, less than one-fourth those of either of the two preceding years. Even though substantial quantities were sold for unrestricted use (including that swapped for pudding or processed cheese), purchases stayed rather moderate. Net removals of butter were slightly negative because of small amounts sold back to the industry, while small DEIP exports of cheese were made.

Removals are expected to stay moderate during the current marketing year, even if they pick up from the rather minimal start. International markets are expected to absorb most of the domestic surplus of skim solids, and milkfat markets are projected to remain tight. The strength of export demand is critical, but removals are not expected to return to the levels of a few years ago even if commercial exports falter.

Although allocations for the current July-June commitment year were announced, no invitations for bids, necessary to implement DEIP, were issued. Domestic butter and cheese markets have stayed tight, and U.S. skim milk powder is fully competitive internationally without subsidies. Invitations may be issued after the start of the year if market conditions change enough.

Commercial Use Mixed

Movement of many dairy products has remained erratic, confounding easy interpretation of current dairy demand. Sales of butter and cheese were somewhat lackluster in September-October, following strong oscillations during spring and most of summer. Some of the sluggishness during September-October may still have been carryover from the spring price peaks and subsequent adjustments. However, delayed holiday buying probably was a larger factor. Prices generally weakened during September and much of October. Buyers likely minimized purchases for the autumn holidays in hopes of further price decreases, setting the stage for the reported November scramble for supplies.

Commercial disappearance of nonfat dry milk continues to increase, up modestly in October after an astounding summer quarter. Through October, movement was 45 percent above a year earlier—seemingly sure to break the 1965 record this year. It is unclear where this powder went. Commercial exports undoubtedly have been large this year, but the reported exports minus DEIP and food aid exports only explain a relatively modest share of the increase in disappearance. Although domestic powder use may well have grown, and user inventories might have

swollen, it seems likely that commercial exports have been larger than what has been reported thus far.

Sales of other products have been mixed but generally weak. Declines in beverage milk sales persist, down about 1.5 percent for the first 9 months of 2004. Likewise, sales of cottage cheese and frozen products (other than lowfat ice cream) decreased significantly in recent months. Sour cream and yogurt use did manage to be exceptions to the general pattern.

The economy and personal incomes continue to grow. However, economic performance has been uneven, with some sectors lagging considerably. In addition, higher food and energy prices have absorbed a significant share of the income growth. But, the consumption expenditures seem to imply an underlying shift to housing and housing-related expenditures and away from the “treats” for immediate consumption that had been so favored before mid-2001. These trends imply that demand for dairy products will be good--but not exceptional--in 2005.

Tight International Markets and a Weak Dollar Equal High Prices

International dairy markets remain tight, and the weak U.S. dollar is translating this tightness into relatively high prices. Prices of nonfat dry milk ran about \$2,400 per metric ton in late November, up about \$600 from a year earlier and \$200 since late summer. Meanwhile, butter was selling for about \$2,100 per ton, up about \$500 from a year earlier and slightly from summer levels. Prices for cheese and dry whole milk reportedly have been even stronger than for butter and nonfat dry milk.

Demand has been generally strong. Milk powder demand from eastern Asia has been brisk, reflecting the region’s generally good economic performance. Latin American imports have stayed fairly large in spite of the high prices. Higher oil prices have boosted demand in the Middle East, North Africa, and other oil producers, as has rebuilding efforts in Iraq and Afghanistan. Higher oil prices have also had an important impact on butter demand in the Middle East. Russian butter demand reportedly has been fairly robust but not extraordinary.

Export supplies have been limited. European Union (EU) milk production has been down slightly, and domestic use has been strong. Intervention stocks are quite moderate. As a result, the EU has been relatively slow to compensate for the strength of the euro by raising export restitutions. Australia’s recovery in milk production has been modest thus far in their season. Meanwhile, cool, wet conditions foiled pre-season predictions of another sizable increase in New Zealand output. Season totals continued to lag year-earlier levels through the seasonal peak. An annual increase is certainly still possible since recent weather has been excellent. However, considerable doubt remains, particularly since last season had a fairly strong close. The United States still has considerable quantities of skim solids that could be exported at current prices, but the U.S. domestic market has tightened greatly.

The increase in nonfat dry milk prices since the middle of 2003 differs in several important ways from earlier surges in international prices. First, the very high dollar prices resulted from a combination of a tight market balance and a weak dollar. Some importers are being affected by the high prices much less than others,

and most exporters are being hurt by their currencies' strength. Oil producers, normally affected substantially by weakness in the dollar, have not been because of higher oil prices.

Market dynamics also have been considerably different during this price rise. Typically, major price increases have set off a round of panic buying by importers that pushes prices to an extreme peak. Prices soon collapse once the panic starts to subside. In the recent case, buyers knew there was no reason for concern. The continuing surplus and heavy stocks in the United States meant that ample amounts would be available near recent prices.

International prices for nonfat dry milk are expected to remain high through at least most of 2005 as the dollar is expected to stay weak. Export supplies are unlikely to expand substantially until at least the second half. Some seasonal price weakening may occur during the Northern Hemisphere winter, but demand is projected to stay firm. The same general picture is projected for butter prices, but butter prices may not be quite as strong because of less certain demand strength.

2005 Exports To Be Strong While Imports Slip

Commercial exports of nonfat dry milk are projected to be sizable in 2005. Even with some possible softening of market conditions, international markets probably will need substantial quantities of U.S. powder. Prospects for cheese exports are more uncertain. The weak dollar will certainly aid exports, but domestic prices are projected to be high enough to limit attractiveness of U.S. supplies.

U.S. imports of dairy products may slip in 2005, on both a milkfat and skim solids basis. However, decreases in imports likely will be modest. Imports of milkfat within the tariff-rate quotas (TRQ) will be attractive but high-tier imports probably will be considerably smaller. Within-TRQ imports of cheese will generally be attractive, although imports of some unsubsidized European cheeses could be affected by the exchange rate. Imports of skim solids products may decrease even within TRQ.

Further erosion of imports of concentrated milk proteins is possible in 2005. Domestic prices of skim solids may well greatly discourage use of imported proteins in those uses where domestic solids are easily substituted.

Price Volatility Remains

The 2004 price roller coaster had one last up to it. Butter and cheese prices rose during much of November as brisk holiday movement overwhelmed the modest expansion in milk production. The effects may have been compounded by late summer-early autumn price softness that encouraged buyers to delay holiday purchasing. However, market tightness was reportedly not uniform, with butter and some cheese varieties and ages tight but other cheese types more ample.

Substantial declines in wholesale butter and cheese prices have begun as year end holiday needs apparently have been met. Further declines may occur if pipeline holdings become swollen or if late season sales falter. Year end pipeline holdings probably will be key to early 2005 prices. Butter pipelines give signs of going out

of the year tight, possibly quite tight. However, holdings of at least some cheese types might be ample.

Seasonal declines in cheese prices are expected to have been large by early 2005. Falls in butter prices may also be large, but the declines probably will be slowed somewhat by low stocks. Even so, wholesale butter and cheese prices are projected to remain relatively strong through at least the first half of the year. Growth in milk production is not likely to be sudden, and demand should be able to absorb most of it.

Nonfat dry milk prices are in a somewhat different position. Second-half increases were modest and driven mostly by adjustment to international prices. International prices will remain the dominant factor in domestic powder prices. Some slight seasonal weakening is possible (particularly if the dollar recovers a bit) but prices may average above the support purchase price for most of the first half of 2005.

Fall From 2004 Record Milk Price Seen as Limited

Late 2004 recovery will leave average farm milk prices near \$16 per cwt, up about \$3.50 from 2003 and easily a record. Milk prices have averaged above a year earlier since the summer of 2003. The year-to-year rise in farm prices was the largest proportional rise since World War I.

In 2004, the value of milk for cheese exceeded the value of milk for butter-nonfat dry milk by a wide margin. This stood in sharp contrast to most of the 2000-02 period when butter-powder values were dominant. The advantage to cheese is expected to narrow in 2005 as extra milk is expected to lower butter and cheese prices but have little impact on powder prices.

Milk prices are projected to fall to \$13.85-\$14.65 in 2005, still considerably above those of 2002 and 2003. Much will hang on the size and steadiness of the expansion in milk production, where uncertainty is boosted by the BST situation as well as other milk-per-cow factors. Demand growth is expected to be only modestly favorable but could pick up if the economy finds steadier footing. Lastly, behavior by buyers, stung by this year's price volatility, may be somewhat erratic.

Retail dairy prices in 2004 are projected to average about 8 percent above a year earlier, following almost no change in 2003. Although the farm-to-retail price spread posted increases during the second half, the average spread decreased slightly for the second year in a row. Despite the relatively large increase this year, retail dairy prices in the last 5 years have risen less than 3 percent annually, similar to prices of all food and a little less than prices of all items.

Retail prices of manufactured dairy products reacted rather typically to wholesale price swings, lagging changes in both directions, but fluid milk price changes were highly unusual. Late 2003 farm price increases and the early portion of the 2004 rise were almost not seen in retail prices of fluid milk. Retail milk prices then made an unprecedented jump in May. When farm milk prices dropped, retail prices fell relatively quite quickly in August and September. Several factors may have contributed to this unusual pattern. Fluid milk sales have generally been rather weak, leaving retailers concerned that price increases might sap sales even more.

Fluid milk sales make the greatest contribution to net margins for the dairy case, even though gross margins are relatively modest. In addition, supermarkets are being seriously challenged by the mixed-merchandise discount chains. Supermarket milk sales had been affected less than most sales because shopping frequency at the discounters was low. As the frequency has increased, supermarkets have seen a larger share of milk sales being challenged.

Retail dairy prices are expected to increase less than 2 percent in 2005. Increases in the spread are projected to just outweigh the decreases in farm milk prices. However, retail pricing of fluid milk might stay somewhat atypical and unpredictable.

Fed Beef Supplies Remain Tight

Fourth-quarter beef production is going to be about unchanged from the very low levels of last year when the industry was still adjusting to the loss of Canadian slaughter cattle and processing beef from cattle over 30 months of age. Fed cattle slaughter was being pulled forward to meet strong demand. The end result was record cattle and beef prices as cattle were marketed at lighter weights. Last fall cattle slaughter was down 9 percent, but beef production was down 12 percent as commercial dressed carcass weights were 26 pounds below a year earlier. This fall, commercial slaughter weights are about 2 pounds above the record set in fourth-quarter 2002. However, slaughter is down about 4 percent from a year ago resulting in another fourth quarter with production below 6 billion pounds. Poor feedlot conditions in many areas in late November to early December raised concerns for maintaining production in the first half of 2005. The sharpest year-to-year declines are in cow slaughter, with steer and heifer slaughter about unchanged from a year earlier.

Although increasing seasonally, fall cow slaughter is still expected to run 15 percent below a year earlier. Both dairy and beef cow slaughter are being held down as prospects for additional heifers calving and entering the herd in 2005, particularly for beef heifers, appear limited. The number of heifers calving and entering the herd in the first-half of 2004 was below a year earlier and the number of heifers on feed October 1 were above a year earlier. Cull utility cow prices remain well above levels of a year earlier.

On-Feed Inventories Increase Seasonally

The number of cattle on feed on November 1, in feedlots with over 1,000 head capacity, was up nearly 3 percent from a year earlier. Although placements and marketings during October were both down 3 percent from a year earlier, placements exceeded marketings by about 900,000 head. With two fewer slaughter days in October, the marketing pace was fairly strong. However, placements for the quarter are expected to decline about 5 percent due to tight feeder cattle supplies and very strong demand for over-wintering grazing systems. However, abundant moisture in most wheat grazing areas has prevented some calves from being turned out on wheat pasture. Unfortunately, many of the feedlots that these calves are in are also facing extremely muddy conditions. As usual, moisture conditions will dictate whether these calves are placed on full feed rations or turned out on wheat pasture.

Muddy Lots Influence Marketings

Muddy feedlots and reduced gains have added another factor to already tight fed beef supplies. Poor feeding conditions and good post-Thanksgiving beef movement resulted in sharply higher fed cattle prices in early December. Conditions improved to some extent in mid-December with prices declining from near \$90 a cwt to the mid-\$80s. Cattle feeders and packers continue to jockey for prices, with the winner largely a function of feeding conditions and forward commitments on product. Beef supplies are expected to remain very tight and could get even tighter depending on late fall/winter feeding conditions.

Retail Beef Prices Remain Strong

Retail prices for Choice beef have declined since mid-summer, but remain strong with prices averaging 2 percent above a year earlier. The slower fed cattle marketing pace and record steer and heifer federally inspected slaughter weights have resulted in a larger proportion of the fed cattle grading Choice helping to take some pressure off the market. Retail beef prices are expected to remain strong in 2005, with fed cattle supplies remaining very tight. Heifers retained for breeding in 2005 will tighten supplies even more in late 2005 and 2006, resulting in another run toward record prices.

Hogs/Pork

Total U.S. Pork Exports Increase More Than 25 Percent Over 2003

In the first 10 months of 2004, U.S. companies exported 1.8 billion pounds of pork products, 26 percent more than during the same period last year. So far this year, the most important destination markets--in terms of quantity and export share--are Japan, Mexico, Canada, and Taiwan. As the table below shows, these four markets together account for more than 80 percent of 2004 pork exports.

January-October U.S. exports			January-October U.S. export shares	
2004	2003	04/03	2004	2003
Million lb.		% change	%	%
Carcass weight equiv.				
Japan	759	683	11	43.2
Mexico	434	264	64	24.7
Canada	186	150	24	10.6
Taiwan	85	52	63	4.8
				3.7

Source: USDA/ERS.

Exports to Japan Increase, but Export and Market Shares Decline

U.S. exports to Japan through October were 11 percent above a year ago, despite Japanese imposition of the Safeguard in August. The Safeguard is a WTO-legal measure which the Japanese Government can use to protect Japanese hog producers from surges of imported pork products. The Safeguard effectively increases the price of imported pork products by about 25 percent. Economic factors that could explain higher U.S. exports to Japan, despite higher import prices, include Japan's need to substitute for smaller imported beef and poultry supplies. Japanese restrictions on North American beef imports, and Avian Influenza outbreaks in poultry-exporting Asian countries have been major factors in limiting those imports. More recently, the lower valued U.S. dollar is a factor frequently cited as most important in driving the U.S. export sector. With respect to Japan, the U.S. dollar has depreciated more than 21 percent against the Japanese yen since 2002.

Although Japan remains the largest destination for U.S. pork, its share of U.S. exports has declined from 48.7 percent, to 43.2 percent. Japanese import data also show that U.S. pork products accounted for a smaller percentage of total Japanese pork imports, compared with the same period last year, despite a lower valued U.S. dollar.

Japan pork imports		
January-October 2004		
	2004	2003
	%	%
United States	29	33
Denmark	31	29
Canada	21	22

Source: World Trade Atlas.

The loss of the U.S. market share is due to losses on the frozen side of the market. It is likely that Denmark and other smaller European pork-exporting countries, gained market share from the United States and Canada early in 2004 when the EU temporarily re-instituted export subsidies to “rebalance” the EU market.
(<http://www.fas.usda.gov/gainfiles/200404/146105885.pdf>)

Japan frozen pork imports January-October 2004		
	2004	2003
	%	%
United States	18	23
Denmark	40	37
Canada	22	23
Other EU	11	8

Source: World Trade Atlas.

Exports to Mexico Climb; Mexican Share of U.S. Exports Increases Also

Through October, U.S. exports to Mexico have increased 64 percent over the same period of 2003. Early in 2004, the driving factor behind at least part of the increase was the BSE-related reduction in Mexican beef imports from Canada and the United States. But more generally, the increased U.S. pork exports to Mexico are more likely a function of competitively-priced U.S. pork products, a growing Mexican middle class, and an improving retail marketing system in Mexico.

Mexican consumers appear to have a preference for specific pork cuts: hams and picnics, in particular. Such preferences are reflected in cut-out data, presented by the Mexican Pork Confederation:

Comparative cut pork revenue		
	Revenue %	
Product	U.S.	Mexico
Loin/back	33	21
Belly/spare	32	18
Ham	19	35
Picnic	6	15
Boston butt	8	9
Other	2	2

Source: Mexican Pork Confederation Presentation, Washington, D.C., June 10, 2003.

These data suggest that Mexican markets attach a greater value to hams and picnics than do markets in the United States. In Mexico, 35 percent of the value of a hog carcass derived from the ham, while in the United States, hams accounted for 19 percent of the carcass value. The difference in valuation between Mexican and U.S. markets for picnics also stands out: 15 percent in Mexico versus 6 percent in the United States.

Mexican preferences for hams and picnics are reflected in U.S. exports to Mexico. Calculations using U.S. export data, below, indicate that hams and shoulders are a growing share of total exports to Mexico. In 2000, hams and shoulders accounted

for 40 percent of exports to Mexico, while 10 months into 2004, that share has increased to 72 percent.

Tariff Code, Description	Percent of total U.S. exports to Mexico				
	2000	2001	2002	2003	2004*
	---percent---				
(0203121000) Hams/shoulders, & cuts, bone in processed frsh/chld	15	15	16	15	14
(0203129000) Hams/shoulders, & cuts, bone in ex processed fr, ch	16	14	21	37	51
(0203221000) Hams, shoulders, & cuts, bone in, processed, frozen	.1	2	2	1	1
(0203229000) Hams/shoulders & cuts, bone in ex processed, frozn	9	19	12	6	6
Total hams/shoulders	40.1	50	51	59	72

*2004 data are January-October
Source: USDA/ERS.

In the summer of 2004, the Mexican Ministry of Economy initiated an anti-dumping investigation of imported U.S. hams (fresh and frozen). The Ministry claims that pork legs have entered the Mexican market at prices significantly below the cost of production. The resolution claims there is sufficient information to determine that there is price discrimination and damage to the Mexican pork industry. The Ministry of Economy has not yet concluded its investigation.

Taiwan an Important Export Destination This Year; Other Asian Markets Lower

U.S. pork exports this year to Taiwan have increased 63 percent over the same period of 2003. Taiwan now accounts for 4.8 percent of U.S. exports, an increase from 3.7 percent last year. Taiwanese demand for U.S. pork products has increased because of an outbreak of Porcine Circovirus in Taiwan, which has reduced Taiwanese domestic pork production. <http://www.fas.usda.gov/gainfiles/200408/146107209.pdf>.

Taiwan's increased demand for U.S. pork contrasts with lower demand from both South Korea and Hong Kong. Exports to South Korea are currently 27 percent lower than last year. So far this year, South Korea accounts for 2.8 percent of U.S. exports, whereas last year at the same time, Korea's export share was 4.9 percent. Exports to Hong Kong are currently 12 percent lower than a year ago. Hong Kong accounted for 1.6 percent of U.S. pork exports through October. Last year at this time, Hong Kong's export share was 2.3 percent.

Part of the reason for lower U.S. exports to Hong Kong and South Korea is likely the increasing competitiveness of competing pork-exporting countries. In Hong Kong, data indicate that imports from China, Vietnam, and Europe have all increased in 2004. Shorter distances could make developing pork export industries in China and Vietnam more competitive in some Asian markets.

(<http://www.fas.usda.gov/gainfiles/200408/146107302.pdf>). Subsidized European pork products also appear to be a factor contributing to lower U.S. exports to both Hong Kong and South Korea
(<http://www.fas.usda.gov/gainfiles/200409/146107462.pdf>).

Market Integration in the North American Hog Industries by Mildred M. Haley

<http://www.ers.usda.gov/publications/ldp/NOV04/ldpm12501/>

About 8 percent of the hogs slaughtered in the United States in 2004 will originate in Canada--many more than 10 years ago. Canadian hogs have flowed into the United States in response to significant structural changes in the U.S. pork industry, concurrent with policy changes in Canada. This, combined with a strong U.S./Canadian dollar exchange rate, created incentives to expand hog operations in Ontario and to start production in Manitoba. In 15 years, an open border and pronounced breeding herd efficiencies helped to increase Canadian hog exports to the United States by more than eight-fold.

U.S. Broiler Production Lowered

Estimated 2005 broiler production was decreased by 100 million pounds to 35.1 billion pounds, as recent egg sets have been running considerably lower than earlier this year. The weekly broiler hatchery report continues to show increases in the numbers of broiler chicks being placed for growout. However, over the last 5 weeks (Nov. 6 through Dec. 4), the number of broiler eggs being placed in incubators has averaged 206.7 million per week, up less than 1 percent from the same period in 2003. This data for egg sets indicate that chick placements, on a year-over-year basis, can be expected to be considerably lower in the next several weeks after averaging 3 to 4 percent higher for most of the last 5 months.

U.S. broiler production in fourth-quarter 2004 is estimated at 8.6 billion pounds, 4.4 percent higher than in fourth-quarter 2003. Broiler production in October was 2.9 billion pounds, down 5.2 percent from a year earlier, as October 2004 had two less slaughter days than in October 2003. The loss of a slaughter day normally means close to a 5-percent drop in monthly production. November has two additional slaughter days compared with the previous year and should result in a double-digit increase in production. This follows a third-quarter where production increased 4.6 percent compared with a year earlier. The increase in production is expected to come from both higher numbers of birds going to slaughter and continued growth in their average weights.

Broiler Stocks Move Upward

As year-over-year growth in production has risen in 2004, stocks of broiler products held in cold storage have started to accumulate. The estimate of cold storage holdings of broiler products at the end of October was 796 million pounds, up 33 percent from a year earlier. Over the first 5 months of 2004 stock levels were below the previous year, but starting in June stocks have increased by over 40 million pounds.

With increases in production and growing amounts of product in cold storage, domestic broiler prices have declined. The November 12-city average for whole broilers was 68.1 cents a pound. This was still up 6 percent from the previous year, but prices have fallen around 14 cents a pound from where they were in June. Leg quarter prices were 30 cents per pound in November, slightly higher than the previous year, but leg quarter prices also have fallen since June (down 7 cents a pound). Broiler prices are expected to gradually strengthen over the next several months as lower production and stronger exports should result in stock reductions.

U.S. broiler exports in October 2004 were a record 568 million pounds, slightly less than 5 million pounds above the previous record set last October. This leaves exports for the first 10 months of the year at 3.85 billion pounds, still 6 percent lower than the same period in 2003. The quantity of broiler exports has benefited over the last several months from the decline in prices for most broiler parts. Shipments are also expected to strengthen over the next several months with the reopening of the Chinese market to U.S. poultry products.

Turkey Production Down, Prices Higher

In November, the price for whole turkeys (hens) in the Eastern region averaged 78.3 cents per pound, up 13 percent from the previous year. Wholesale prices for whole birds and parts are expected to decline slightly on a seasonal basis during the next several months, but prices for most turkey products are expected to be supported by the current low levels of cold storage stocks of turkeys (whole birds and parts). At the end of October, stocks of whole birds were 260 million pounds, down 21 percent from the previous year, and stocks of turkey parts were 230 million, 10 percent lower than last year.

Turkey production during the first 10 months of 2004 has totaled 4.5 billion pounds, down 4.9 percent from the same period in 2003. The decline in production has been the result of a smaller number of birds being slaughtered, as the average weight of birds has been slightly higher so far in 2004. Production over the next several months is expected to remain below the previous year. Over the last 6 months, (May through October), the number of poults placed for growout has only totaled 138 million birds, 4.7 percent lower than the same period in 2003.

U.S. turkey exports, after showing a 3.9-percent increase in the third quarter to 134 million pounds, fell somewhat in October to 43.3 million pounds, down 14 percent from the previous year. However, exports to Mexico continue to be strong. Shipments to Mexico were 26.8 million pounds in October boosting exports over the first 10 months of 2004 to 211 million pounds, 9 percent higher than the previous year. Turkey exports in general, and exports to Mexico specifically may be pressured in the coming months by strong U.S. prices and the institution of an inspection fee by the Mexican Government. Prices for whole turkeys have shown double-digit gains compared with the previous year and prices are also higher for other turkey parts. The Mexican Government has announced the institution of inspection fees to help offset the cost of border inspections. The fees are expected to amount to approximately \$450 per truck. This fee structure would more heavily impact items with a lower unit value, such as mechanically deboned turkey meat to be used in the Mexican food processing industry.

Red meat and poultry forecasts

	2001	2002	2003	2004								2005				
	Annual	Annual	I	II	III	IV	Annual	I	II	III	IV	Annual	I	II	III	Annual
Production, million lb																
Beef	26,107	27,090	6,282	6,902	7,081	5,973	26,238	5,834	6,254	6,360	5,975	24,423	5,950	6,375	6,500	24,775
Pork	19,138	19,664	4,898	4,741	4,807	5,499	19,945	5,130	4,897	5,046	5,450	20,523	5,175	4,975	5,065	20,800
Lamb and mutton	223	219	49	50	48	52	199	52	46	46	50	194	51	49	47	197
Broilers	31,266	32,240	7,786	8,275	8,448	8,240	32,749	8,208	8,491	8,834	8,600	34,133	8,450	8,775	9,075	35,125
Turkeys	5,562	5,713	1,380	1,439	1,409	1,423	5,650	1,302	1,365	1,387	1,400	5,454	1,285	1,380	1,400	5,515
Total red meat & poultry	83,006	85,669	20,570	21,586	21,965	21,355	85,476	20,687	21,220	21,849	21,646	85,402	21,074	21,723	22,260	87,081
Table eggs, mil. doz.	6,078	6,190	1,524	1,528	1,559	1,596	6,207	1,554	1,572	1,595	1,635	6,356	1,585	1,600	1,605	6,435
Per capita consumption, retail lb 1/																
Beef	66.2	67.6	16.2	16.9	16.9	15.0	64.9	15.9	16.9	16.9	15.7	65.4	15.6	17.1	17.2	65.9
Pork	50.2	51.5	12.6	12.5	12.6	14.1	51.8	13.0	12.4	12.7	13.6	51.7	12.8	12.5	12.8	52.0
Lamb and mutton	1.1	1.2	0.3	0.3	0.2	0.3	1.1	0.3	0.3	0.2	0.3	1.1	0.3	0.3	0.3	1.2
Broilers	76.6	80.5	19.7	20.7	21.3	19.9	81.6	20.8	21.2	21.8	21.3	85.1	21.0	21.5	22.5	86.6
Turkeys	17.5	17.7	3.6	3.9	4.6	5.3	17.4	3.6	4.0	4.4	5.1	17.1	3.4	3.8	5.4	16.6
Total red meat & poultry	213.6	220.5	52.9	54.9	56.1	55.0	218.9	54.1	55.1	56.5	56.4	222.1	53.8	55.5	57.1	223.7
Eggs, number	252.7	255.5	62.6	63.0	63.8	65.3	254.7	63.5	63.7	63.9	65.6	256.7	63.3	63.7	65.4	256.1
Market prices																
Choice steers, Neb., \$/cwt	72.71	67.04	77.82	78.49	83.07	99.38	84.69	82.16	88.15	83.58	84-85	84.60	81-85	84-90	80-86	82-88
Feeder steers, Ok City, \$/cwt	88.20	80.04	78.48	82.49	94.90	103.51	89.85	87.98	104.58	116.27	110-111	104.83	93-97	93-99	94-100	94-100
Boning utility cows, S. Falls, \$/cwt	44.39	39.23	40.53	46.52	49.84	49.60	46.62	47.50	54.86	56.25	54-55	53.28	52-54	53-57	51-55	52-56
Choice slaughter lambs, San Angelo, \$/cwt	72.04	72.31	91.92	93.71	89.48	92.82	91.98	100.62	97.06	93.62	94.5-95.5	96.58	95-99	92-98	91-97	92-98
Barrows & gilts, N. base, i.e. \$/cwt	45.81	34.92	35.38	42.64	42.90	36.89	39.45	44.18	54.91	56.58	55-56	52.79	50-52	50-54	47-51	47-51
Broilers, 12 City, cents/lb	59.10	55.60	60.30	59.60	63.40	64.60	62.00	73.20	79.30	75.70	68-69	74.20	69-73	69-75	70-76	70-75
Turkeys, Eastern, cents/lb	66.30	64.50	61.10	60.60	59.10	67.40	62.10	62.10	66.60	73.10	76-77	69.60	63-67	65-71	69-75	68-73
Eggs, New York, cents/doz.	67.20	67.10	77.20	73.90	89.90	110.70	87.90	114.90	79.70	66.20	66-67	81.80	63-67	58-62	62-68	63-67
U.S. trade, million lb																
Beef & veal exports	2,269	2,447	582	678	680	578	2,518	36	120	138	150	444	140	170	170	620
Beef & veal imports	3,164	3,218	810	741	619	836	3,006	873	929	940	790	3,532	890	940	940	3,660
Lamb and mutton imports	146	162	40	44	35	48	168	62	47	34	46	189	57	50	47	199
Pork exports	1,560	1,611	412	440	404	461	1,717	523	546	486	550	2,105	540	545	495	2,145
Pork imports	951	1,070	289	301	298	297	1,185	275	265	291	305	1,136	275	290	310	1,215
Broiler exports	5,555	4,807	1,191	1,166	1,181	1,382	4,920	1,024	1,008	1,250	1,225	4,507	1,180	1,260	1,270	4,955
Turkey exports	487	439	103	114	129	137	484	83	93	134	140	450	120	120	140	510

1/ Per capita meat and egg consumption data are revised, incorporating a new population series from the Commerce Department's Bureau of Economic Analysis based on the 2000 Census.

Source: World Agricultural Supply and Demand Estimates and Supporting Materials.

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Economic Indicator Forecasts

	2003			2004					2005			
	III	IV	Annual	I	II	III	IV	Annual	I	II	III	Annual
GDP, chain wtd (bil. 2000 dol.)	10,493	10,599	10,381	10,709	10,778	10,883	10,983	10,837	11,074	11,168	11,262	11,216
CPI-U, annual rate (pct.)	2.3	0.9	1.9	3.6	4.7	1.9	2.5	3.2	2.3	2.2	2.2	2.2
Unemployment (pct.)	6.1	5.9	6.0	5.6	5.6	5.4	5.4	5.5	5.3	5.3	5.2	5.3
Interest (pct.)												
3-month Treasury bill	1.0	0.9	1.0	0.9	1.1	1.5	1.9	1.4	2.3	2.5	2.9	2.7
10-year Treasury bond yield	4.2	4.3	4.0	4.0	4.6	4.3	4.3	4.3	4.5	4.7	5.0	4.8

Source: Survey of Professional Forecasters, Philadelphia Federal Reserve Bank, November 2004.

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Dairy Forecasts

	2003			2004					2005			
	III	IV	Annual	I	II	III	IV	Annual	I	II	III	Annual
Milk cows (thous.)	9,073	9,011	9,084	8,990	8,998	9,033	9,025	9,010	8,990	8,960	8,940	8,945
Milk per cow (pounds)	4,601	4,609	18,748	4,750	4,858	4,671	4,690	18,970	4,845	5,010	4,790	19,455
Milk production (bil. pounds)	41.7	41.5	170.3	42.7	43.7	42.2	42.3	170.9	43.6	44.9	42.8	174.1
Commercial use (bil. pounds)												
Milkfat basis	44.9	45.3	174.6	42.1	43.7	44.5	45.7	176.0	43.1	44.1	45.4	178.5
Skim solids basis	42.4	42.0	166.2	42.4	43.2	43.3	43.4	172.3	43.5	44.1	44.2	175.7
Net removals (bil. pounds)												
Milkfat basis	0.2	0.0	1.2	-0.1	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.1
Skim solids basis	1.4	0.7	8.1	0.8	0.1	0.4	0.6	1.9	1.0	0.5	0.8	2.9
Prices (dol./cwt)												
All milk 1/	13.30	14.40	12.52	14.07	18.60	15.47	15.85	15.95	14.90	12.95	13.05	13.85
							-16.05	-16.05	-15.40	-13.75	-14.05	-14.65
Class III	13.29	13.24	11.42	12.66	19.31	14.54	14.65	15.25	12.80	11.85	12.05	12.35
							-14.85	-15.35	-13.80	-12.85	-13.05	-13.35
Class IV	10.05	10.33	10.00	12.43	14.26	12.92	13.10	13.10	12.15	11.40	11.65	11.80
							-13.40	-13.30	-12.75	-12.30	-12.75	-12.70

1/ Simple averages of monthly prices. May not match reported annual averages.

Source: World Agricultural Supply and Demand Estimates and supporting materials.

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Data

Colorado State University's Livestock Marketing Information Center (<http://www.lmic.info>) now houses the retail scanner prices for meat database (<http://www.lmic.info/meatscanner/meatscanner.shtml>), including standard tables, the searchable database, and documentation. The raw data underlying the database are from supermarkets across the United States that account for about 20 percent of supermarket sales. Erica Rosa, 720-544-2941.

Recent Report

"U.S. 2003 and 2004 Livestock and Poultry Trade Influenced by Animal Disease and Trade Restrictions" discusses how animal diseases have influenced trade in animal products in the past few years, and is available at <http://www.ers.usda.gov/publications/LDP/JUL04/LDPM12001/>

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